Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No 03-109
_____	)	

COMMENTS OF HAWAIIAN TELCOM, INC.

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EXECUTIVE SUMMARY

Hawaii is a unique environment for the provision of communications services. Its extreme geographic isolation and strategic location, its substantial native Hawaiian population dispersed throughout six islands, and extraordinarily challenging physical features, including volcanoes, steep mountain ranges, rain forests, deep-sea channels, and other unique characteristics, combine to make the construction and operation of advanced networks both uniquely important and especially difficult. Historically, as the only incumbent local exchange carrier ("ILEC") and carrier-of-last-resort in the state, HT has had responsibility to provide universal service throughout the island state. HT thus is uniquely qualified to comment on the needs of bringing broadband capability to all the people of Hawaii.

HT applauds the drafters of the ABC Plan and other proposals cited in the FCC's recent *Public Notice* for the efforts they are making. HT believes that many parties are coming to understand the challenges of making broadband capability available to all Americans at affordable rates, as well as the urgency of developing the right policies and rules to meet those challenges. However, HT does not agree with shifting network costs onto ILECs and their end-users. HT submits that extraordinary solutions will be required to meet the extraordinary demands of bringing universal broadband to Hawaii.

In these comments HT points out that a number of aspects of the pending universal service reform proposals may actually disserve the public interest in Hawaii by creating disincentives for investment and raising the financial burden on end-users. Because of Hawaii's unique characteristics, providing universal service, and universal broadband coverage in particular, presents truly special circumstances. In addition,

federal and state regulatory policies inadvertently have led to chronic underfunding of the telecommunications infrastructure. Rules developed for the mainland states cannot be expected to have predictable effects in Hawaii. The people of the state deserve a Hawaii-specific plan that will ensure that they have access to the broadband infrastructure envisioned by this Commission.

HT proposes that (i) its traffic-sensitive rates for intrastate and interstate access charges be brought to parity at $0.0055 in two steps, between July 1, 2012 and July 1, 2013, with no further reductions in HT's access charges until the Commission reevaluates the impact of this plan on infrastructure and services in the state; (ii) its existing Interstate Access Support (IAS) gradually be phased out in five equal steps over four years, from January 1, 2012 through January 1, 2016; and (iii) full Connect America Fund (CAF) support be made available to HT immediately, beginning January 1, 2012, for at least a ten-year period. HT explains in these comments why this proposal will serve the public interest in Hawaii by creating meaningful opportunity for infrastructure investment and service expansion by HT, without imposing significant costs on the CAF.

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COMMENTS OF HAWAIIAN TELCOM, INC.

Hawaiian Telcom, Inc., on behalf of its operating subsidiaries (HT), hereby comments on the Commission's *Further Inquiry Into Certain Issues In the Universal Service-Inter-carrier Compensation Transformation Proceeding,* FCC Public Notice DA 11-1348 (rel. Aug. 3, 2011) (the *Public Notice*).

I. INTRODUCTION

As the sole incumbent local exchange carrier (ILEC) and carrier-of-last-resort (COLR) for the entire state of Hawaii, HT's interest in this rulemaking is more central than that of most participants. HT previously filed comments and reply comments in response to the Commission's February 9, 2011 Notice of Proposed Rulemaking in this proceeding and has travelled from Hawaii to Washington, D.C. to meet with the Commission because of the profound and lasting impacts it expects from these

proceedings.[1] Quite simply, the Commission's decisions in these proceedings will be determinative of the future of the company and the future of communications in the state. Although the Commission often and even recently has recognized that bringing comparable and affordable voice and broadband services to customers in Hawaii presents unique challenges, the policy direction indicated by the request for further comment in the *NPRM* suggests that the Commission's primary motivation is reducing the size of the universal service program, resulting in a shifting of costs onto ILECs or their customers. HT would like to ensure that the delivery of advanced services to customers in Hawaii is a priority. Because the Communications Act *requires* the FCC to ensure that the people of Hawaii have affordable access to advanced services that are comparable to those available in the rest of the nation, HT attempts once more to persuade the Commission that a specially tailored approach is required for the state.

II. DISCUSSION

The unique challenges of providing voice and broadband services in the isolated state of Hawaii have been well documented in this and other FCC proceedings. In its initial comments, HT submitted a detailed appendix describing a number of the factors that increase the cost and time to deploy advanced communications capabilities in

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[1] Comments of Hawaiian Telcom, Inc. in WC Docket No. 10-90 *et al.* (filed April 18, 2011) ("HT Comments"); Reply Comments of Hawaiian Telcom, Inc. in WC Docket No. 10-90 *et al*. (filed May 23, 2011) ("HT Reply Comments"); *see Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 26 FCC Rcd 4554 (2011) (the "*NPRM"*).

Hawaii.[2] HT cited in its reply comments numerous comments supporting special consideration for Hawaii, not least of all because of the historically underserved native population dispersed throughout the state.[3]

In the *Public Notice*, the Commission seeks comment on a number of aspects of inter-carrier compensation ("ICC") and universal service funding ("USF") reform under consideration, including proposals recently filed by a group of six companies who style their proposed reforms as "America's Broadband Connectivity Plan" (the "ABC Plan"). The Commission also seeks comment on a set of proposals offered by General Communication Inc. ("GCI") as Alaska-specific reforms, and on other Alaska-specific proposals in the record of this proceeding.[4]

In the context of this complex overhaul of the ICC/USF regime, HT urges the Commission to ensure that its rule changes do not inadvertently deny the citizens of Hawaii the benefits of a broadband-based communications infrastructure. HT offers the following specific comments and targeted rule changes to ensure that the Commission's reforms include Hawaii in the public interest benefits of the National Broadband Plan.

A. *The Proposed Universal Service Reforms for Price Cap Carriers Should Be Better Tailored To the Unique Challenges of Providing Universal Broadband and Voice Services To Americans In Isolated Locations Such As Hawaii*

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2 HT Comments, Append.; *see also Petition of Hawaiian Telcom, Inc. for Waiver of Sections 54.309 and 54.313 (d)(VI) of the Commission's Rules* in WT Docket No. 08-4 et al., 1-3 (filed Dec. 31, 2007) ("HT Petition"), *Comment Sought On Hawaiian Telcom, Inc.'s Petition For Waiver of High-Cost Universal Service Support Rules*, Public Notice, 23 FCC Rcd 473 (Wireline Competition Bur. Jan. 18, 2008).

3 HT Reply Comments at 3-4.

4 *Public Notice* at 9.

In the *Public Notice*, the Commission seeks comment on GCI's proposed Alaska-specific USF reforms, and asks whether GCI's proposed approach also would be appropriate in Hawaii.[5] The Commission also seeks comment on other proposals relating to Alaska and Hawaii in the record.[6] The Commission asks about keeping support within a national budget of $4.5 billion per year, and whether other modifications to national policy would better reflect operating conditions in Alaska and Hawaii.[7] Elsewhere in the *NPRM*, the Commission seeks comment on a proposal by three midsize price cap carriers to immediately target high-cost support to the highest-cost wire centers that currently receive none.[8] This proposal echoes HT's pending petition to recalculate non-rural high-cost support in Hawaii at the wire center level rather than the study area level, which HT believes would yield a modest but helpful amount of support for infrastructure in the high-cost wire centers in the state.[9]

Throughout these comments HT proposes that the pending national USF policy reforms be tailored to better serve the public interest in Hawaii. In a number of examples HT refers to a very narrowly tailored proposal that has been pending more than three

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5 *Public Notice* at 9-10.

6 *Id.*

7 *Id.*

8 *Public Notice* at 10, citing Comments of Windstream Communications, Inc. in WC Docket No. 10-90 et al., 9 (filed Apr. 18, 2011); Letter from Jennie B. Chandra, Windstream Communications, Inc., to Marlene H. Dortch, FCC in WC Docket No. 10-90 et al. (filed June 30, 2011); Letter from Michael D. Saperstein, Jr., Frontier Communications, to Marlene H. Dortch, FCC in WC Docket No. 10-90 et al. (filed July 26, 2011).

9 HT Petition, *supra*, note 2.

years, which would partially address the state's need for broadband infrastructure investment and greatly enhanced broadband availability throughout the state. HT extensively documented why unique circumstances in Hawaii justify grant of HT's petition for support in the highest-cost wire centers in the state.[10] HT proposed that this additional funding be conditioned on meeting targeted reporting requirements to confirm that the funds were used for the broadband build-out that was intended.[11]

HT appreciates the Commission's interest in the particular challenges of providing advanced communications services and deploying broadband in Hawaii. In these comments, HT builds on the same themes set forth in its petition, and suggests a small number of narrowly tailored, simple modifications to the pending CAF and USF reform proposals to better reflect actual conditions in Hawaii and better serve the public there.

1. The Use of a Model Is Only As Appropriate As Its Inputs; Any Adopted Model Should Reflect Real-World Costs in Hawaii

The basic idea of universal service is to permit carriers to recover their reasonable costs in excess of a threshold investment level and an affordable end-user rate. In Part I of the NPRM, the Commission seeks comment on a number of changes to current high-cost universal service programs to redirect funding and to reduce the overall amount of funding provided through federal programs, but HT fears that the actual cost of providing broadband in Hawaii would not be reflected in the ABC Plan as proposed.

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10 *HT Petition* at 6-16.

11 *Hawaiian Telcom, Inc. Petition for Waiver of Sections 54.309 and 54.313(d)(vi) of the Commission's Rules*, WC Docket No. 08-4, Notice of *Ex Parte* Meeting filed by Karen Brinkmann, Attach. at 11 (filed Nov. 19, 2008) ("*HT Ex Parte*").

For example, the ABC Plan proposes that, in future, federal Connect America Fund (CAF) support for price cap carriers be determined differently for rate-of-return and price cap carriers, with support for price cap carriers such as HT revamped based on a predictive model, the CostQuest Broadband Analysis Tool ("CQBAT").[12] An attempt may have been made to adjust for some of the higher construction costs inherent deploying facilities in Hawaii, but the model will be unreliable because the unique geography, climate, demography and topography of the state make it impossible for a national model to accurately predict local costs.

Regardless of the model used, it is unreasonable to assume that any model designed to predict costs in mainland states would also accurately predict the costs of deploying or operating communications networks in Hawaii. Deploying fiber optic cable and other equipment necessary for broadband presents unique challenges and costs in Hawaii, as HT has extensively documented in the record of this proceeding. Special stainless steel sheathing to protect cables from corrosive salt air, ocean-going vessels to lay inter-island fiber in deep-sea channels, and work-arounds in locations affected by live volcanic activity are just a few of the many factors that are unique to the island state.[13] To the extent that the FCC adopts a plan where the award of CAF is predicated upon costs predicted by a model to be above a certain benchmark, the model must be tailored to the specific costs of providing *comparable, advanced telecommunications and information services in Hawaii*, and reflect real-world conditions in the state.

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12 *Public Notice* at 3-4; ABC Plan, Attach. 1 at 3-6, Attach. 3.

13 HT Comments at 2-5; HT Petition, Ex. 1.

2. HT Supports A Right-of-First-Refusal That Acknowledges the Historic Lack of Support for High-Cost Areas In the State

The *Public Notice* next seeks comment on the ABC Plan proposal to grant a right of first refusal ("ROFR") for CAF support to the local ILEC *if* the ILEC already has made available high-speed Internet service to more than 35 percent of the service locations in the wire center.[14] HT supports a ROFR for ILECs, who historically have been the only entities with COLR obligations – which in HT's case means an obligation to deploy telecommunications network facilities and provide service at regulated prices to customers throughout the state, upon request. HT is the only company (regardless of technology) with these obligations, and therefore HT is the only company that has invested in facilities to support truly statewide telecommunications capability.

It is now a matter of record that the state of Hawaii has been underfunded relative to the rest of the country. The NPRM and the National Broadband Plan both state this,[15] HT has documented it on multiple occasions,[16] and other parties have agreed.[17] Specifically, Hawaii's many rural residents lack access to the same advanced services as the residents of the state's urban capital, Honolulu, and lack access to facilities that are

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14 *Public Notice* at 4, citing ABC Plan, Attach. 1 at 6.

15 *NPRM* para. 303, citing *Federal Communications Commission, Connecting America: The National Broadband Plan*, 152 (rel. Mar. 16, 2010) ("*NBP*").

16 *See* HT Petition at 19-21; HT Comments at 2, citing *2006 Native Hawaiian Data Book*, An Office of Hawaiian Affairs Publication, Demographics section, pp. 21-24, http://www.oha.org/pdf/databook/2006/DataBook2006Demographics.pdf; HT Reply Comments at 5.

17 *See, e.g.*, Reply Comments of the State of Hawaii in WC Docket No. 10-90 (filed May 23, 2011) ("Hawaii Reply Comments"), citing *Hawai'i Broadband Task Force Final Report, The Auditor, State of Hawai'i and RHD Consulting, LLC*, at 5 (Dec. 2008).

comparable to those available in the mainland states. This is due to several factors, but most fundamentally it is due to an accident of history: that decades ago, the entire state was declared to be a single study area for ratemaking and universal service purposes. This led to the Commission's classification of the study area as non-rural when it created the current rural/non-rural USF structure implementing the Telecommunications Act of 1996, which in turn meant that zero high-cost model support flowed to the state. Had a different decision been made about the study area definition – for example, defining each island as a separate study area – HT and its predecessors would have qualified for rural high-cost loop support for most of the land mass of the state.[18]

The absence of high-cost model support or loop support these past decades[19] has meant that, although HT has invested in basic telecommunications infrastructure serving the entire state, it has not had the luxury of deploying advanced telecommunications infrastructure in many wire centers that are both rural and remote. The cost would be prohibitive or service simply would not be affordable in the absence of high-cost support. Therefore, the ABC Plan's proposed 35% threshold for the CAF ROFR should not apply in Hawaii.

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[18] As noted in the record, roughly 70 percent of the state's population is located in Honolulu, on the island of Oahu, an urbanized, relatively compact market comprising just nine percent of the state's land mass, while the remaining 91 percent of the state's land mass is home to a mere 30 percent of the population scattered among hundreds of small communities on six diverse islands. Many of the state's rural communities are quite isolated from each other (as well as from Honolulu) due to active volcanoes, steep mountain ranges, gorges, rain forests, and deep-water ocean channels many miles wide. HT Comments at 7.

[19] Although HT does receive interstate access support (IAS), it receives neither high-cost loop support as a rural LEC nor high-cost model support as a non-rural LEC. Because of this historic underfunding, HT requires CAF support *in addition to* continued IAS funding, as discussed in more detail in Subsection B.3, below.

Making CAF support available to HT as the state's only ILEC not only is the fair thing to do, it also acknowledges HT's historic role as the only COLR in the state and the only provider of essential statewide telecommunications services. It also is an efficient investment for the nation. Many infrastructure deployments and upgrades needed to bring broadband to unserved areas will be far less costly for HT to accomplish than for another provider. For example, on the island of Molokai, most wire centers do not have digital subscriber line ("DSL") equipment needed for residential broadband Internet access, but HT has heavily invested in voice and packet-based networks as well as in fiber transport facilities that could be leveraged to quickly and efficiently provide broadband with a reasonable amount of additional investment.

Conversely, auctioning support to the lowest bidder at this stage would undermine HT's current investment incentives, as well as delay much-needed deployment. HT has network facilities in each wire center in the state, and with adequate funding could deliver broadband to every wire center in the state within five years. HT should be encouraged to leverage the existing infrastructure to quickly deploy broadband; if it fails to meet the five-year build out requirement, including interim milestones, an alternative provider may be chosen based on the next most extensive infrastructure investment.

3. HT Is the Most Experienced Service Provider For the Highest-Cost Areas In Hawaii

The ABC Plan proposes that CAF support only be made available for areas where per-line costs are higher than an undetermined high-cost benchmark but below a ceiling deemed too expensive for fixed terrestrial facilities; the highest-cost areas would be

supported only for satellite coverage.[20] Given its experience in meeting the challenges of serving the high-cost areas of Hawaii, HT believes that these areas should not be relegated to satellite service that will not ensure broadband capability that is affordable or reasonably comparable.

The state of Hawaii has ample experience with alternative technologies. Since both satellite and terrestrial wireless communications normally do not perform well in dense rain forests or deep valleys, and commercial power is not available in some areas, HT has adapted its network architecture to the state's terrain using complicated solutions at considerable cost.

For example, in order to serve remote valleys like Kalaupapa[21] on the island of Molokai, and parts of Waipio on the island of Hawaii, which are inaccessible by land vehicles, HT transports materials by helicopter or constructs materials on-site by hand. HT also has engineered custom facilities to cross the wide spans of the Malua,

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20 *Public Notice* at 11-12; ABC Plan, Attach. 1 at 5-6.

21 The Kalaupapa Peninsula is extremely isolated, cut off from the rest of Molokai by sea cliffs rising two thousand feet and otherwise surrounded by ocean. There is no access to the area by ground vehicle, and the only option for transporting heavy equipment to the area on a timely basis is by helicopter, since a barge makes scheduled visits to the area only twice per year. Visitors may access the area via passenger aircraft or private boat, or by riding mules down the steep Kalaupapa Trail from topside Molokai. The U.S. Postal Service ("USPS") recently listed Kalaupapa on a list of post offices being considered for closure. *Expanded Access Study List*, U.S. Postal Service (July 26, 2011), http://about.usps.com/news/electronic-presskits/expandedaccess/states/hawaii.htm. If this post office does close, broadband Internet access will undoubtedly become even more critical to everyday life (*e.g.,* paying bills) in Kalaupapa, and additional funding for infrastructure investment will be all the more essential. At this time, Kalaupapa residents have "no cell phone service and limited Internet access." Catherine Cluett, *Kalaupapa Post Office on the Chopping Block*, The Molokai Dispatch (July 31, 2011), http://themolokaidispatch.com/kalaupapa-post-office-chopping-block.

Laupahoehoe, and Kawalii gulches in order to serve the remote communities along the Hamakua coast on the island of Hawaii.

Between islands, HT relies on undersea fiber optic cables, which must be laid by ocean-going vessels in deep-sea trenches, such as the one connecting the rural island of Kauai with Oahu, home to Honolulu; this trench is over 10,000 feet deep and over 120 miles long. [22]

As documented previously by HT, the limited capacity of HT's fiber optic network and microwave links has hampered HT's ability to accommodate growth and launch new services, especially broadband services.[23] Moreover, even where HT has provided basic telecommunications infrastructure supporting voice service, HT is capacity constrained, limiting HT's ability to accommodate growth in demand or new services. For example, the Puna district on the "Big Island" of Hawaii, despite a land mass that is equivalent to that of the island of Oahu, lacks advanced infrastructure to serve its inhabitants. HT has just four central offices to serve this area (Oahu, by comparison, is served by 39 central offices). HT serves a population of approximately 31,000 in Puna, [24] requiring customer loops exceeding 35,000 feet in length.

Historically, because of their remote location and isolation, the Hawaiian islands have been served by significantly fewer satellite services than the mainland states.[25] The

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22 HT Comments at 2, citing HT Petition, Ex. 1.

23 HT Comments at 5-6, Append. at 2; HT Petition at 3.

24 *See* Leila Fujimori, *Social Ills Common in Rural Puna District*, HONOLULU STAR-BULLETIN (Feb. 17, 2005), http://starbulletin.com/2005/02/17/news/story3.html.

25 Hawaii Reply Comments at 7-9. ("Hawaii has routinely been subject to discrimination in its access to direct broadcast satellite ("DBS") video services and

reliability and speed of satellite broadband service depends on several factors, including the consumer's line of sight to the orbiting satellite, and the weather. Extreme weather conditions may result in service disruptions, and rain attenuation and other technical challenges have made satellite service less reliable and less attractive to consumers in Hawaii than elsewhere.[26] Another disadvantage of satellite broadband is high latency. For advanced applications requiring low latency, such as remote surgery, voice over Internet Protocol ("VoIP"), and other applications involving person-to-person communication, such delays make satellite-based services ineffective substitutes for terrestrial services.

While satellite or terrestrial mobile technologies may be viable alternatives in the mainland states, in Hawaii they will not ensure the robust communications capability – and reliability—that customers demand from broadband networks. Therefore, CAF support should cover 100% of customer locations in Hawaii – any requirement to serve very high-cost locations using the "Advanced Mobility/Satellite Fund" (AMF) should exclude Hawaii.

4. Targeting Non-Rural High-Cost Support To the Wire Center Would Provide Much-Needed Broadband Funding For Underserved Areas In Hawaii

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direct-to-home ("DTH") broadband Internet satellite services… [and] continue to be limited and substantially inferior to the services available to consumers in the rest of the United States."), *citing* Comments of the State of Hawaii, CSR-8302-O (filed Apr. 8, 2010) (discussing DirecTV failure to meet DBS service obligations in Hawaii).

[26] Satellite broadband speeds also typically do not exceed 1 Mbps downstream and 200 kbps upstream, making them slower than terrestrial services, and more costly than wireline alternatives. Source: http://www.fcc.gov/guides/getting-broadband

The Public Notice seeks comment on a proposal by three elective price cap carriers for the high-cost support currently provided to price cap carriers to be recalculated under the FCC's non-rural high-cost proxy model at the wire center level, rather than for the entire study area.[27] HT also has advocated a wire center-based approach to channel non-rural high-cost model support on an interim (five-year) basis to very high-cost wire centers in Hawaii.[28] HT will not repeat here the merits of its petition, but asks that the Commission incorporate the record developed on HT's petition into this proceeding. To the extent that the Commission finds merit in the proposal by three midsize price cap carriers, HT urges the Commission to grant HT's petition and calculate non-rural high-cost support for Hawaii at the wire center level rather than the study area level. HT believes this simple step would yield a modest but helpful amount of support, for a limited period of time, for investment in infrastructure in the highest-cost wire centers in the state.

B. *HT Proposes an Inter-Carrier Compensation and USF Reform Plan Tailored to the Unique Needs of the State of Hawaii*

The Commission is contemplating substantially reducing inter-carrier compensation (ICC) under both its own proposals set forth in the *NPRM*, and in proposals filed in the recent ABC Plan.[29] The justification for this appears to be essentially arbitrage avoidance -- the ILECs who rely on those charges, the theory goes,

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27 *Public Notice* at 9-10.

28 HT Petition, *supra,* note 2.

29 *NPRM* at para. 673; *ABC Plan*, Append. 1 at 10 (discussing plan to transitions "all price cap incumbent LEC, CLEC, and CMRS terminating intercarrier compensation rates to a uniform default rate of $0.0007 per minute by July 1, 2017").

would be better off simply collecting the necessary revenues from their end-users (regardless of whether market conditions would make that impossible). The corollary to this first theory appears to be that ILECs also can recover from their end-users the revenues they have been receiving from IAS, a cost-recovery mechanism put in place by the Commission the last time it forced ILECs to lower their interstate access charges.

In Part II of the NPRM, the Commission seeks comment on the proposals in the ABC Plan for reducing price cap carriers' intrastate access charges and raising local end-user rates. The Commission seeks comment on a two-year phase-down of intrastate access rates for price cap carriers (in contrast to a proposed five-year phase-down for rate-of-return carriers, whose intrastate rates generally are higher than those of their price cap counterparts).[30]

The benefits to interexchange carriers ("IXCs") of rapidly phasing down access charges are obvious, but the benefits to consumers in Hawaii are less so. The FCC has recognized that access to broadband service is limited in the state, yet apparently it expects HT to continue providing universal access to voice service *and* increase broadband infrastructure investment with significantly less revenue from ICC.

HT proposes below an alternative, three-part plan that will better serve the public interest in Hawaii by moderating revenue loss and encouraging ongoing investment in the state over the next ten years. Specifically, HT proposes that (i) its traffic-sensitive rates for intrastate and interstate access charges be brought to parity at $0.0055 in two steps, on July 1, 2012 and July 1, 2013, with no further reductions until the Commission reevaluates the impact of this plan on service in the state; (ii) Interstate Access Support

30 *Public Notice* at 13.

(IAS) be phased out in five equal steps, with annual reductions implemented on January 1 of each year from 2012 through 2016; and (iii) CAF support be made available immediately effective January 1, 2012, continuing in the same amounts for a ten-year period. HT explains these three aspects of its proposal below.

1. Access Charges In Hawaii Should Be Reduced Incrementally

Interstate access services in Hawaii are subject to price cap regulation. Consistent with the Commission's price cap policies, HT has maintained universal voice coverage throughout the state while increasing the efficiency of its operations and responding to ever-growing competition in Honolulu. Over the past two decades, IXCs have benefitted as the FCC has required price cap carriers to lower their average traffic-sensitive (ATS) charges and phase out common line charges. Now the FCC proposes further reductions in interstate *and* intrastate access charges, as well as end-user rate increases.

Phasing out interstate access charges, and possibly reducing intrastate charges as well, would threaten HT's ability to continue providing universal service in Hawaii. In its initial comments and reply comments in this proceeding, HT urged the Commission to proceed cautiously with respect to Hawaii, noting that service quality and reliability, innovation and long-term investment, all are likely to decline in the state if access revenues are eliminated and no revenue replacement mechanism is provided. Proponents of phasing out access charges have not explained how carriers such as HT reasonably can be expected not only to maintain current service levels but also to expand their broadband coverage under such conditions. Respectfully, HT submits that it would be arbitrary and

capricious for the Commission to order such drastic changes in reliance on the unsupported assumption that end-users can simply make up the difference.[31]

HT proposes a different solution for Hawaii. In light of the benefits that already have been enjoyed by IXCs, with HT under interstate price cap regulation, HT proposes that the Commission maintain the interstate ATS rate in Hawaii at $0.0055, and adopt an interim approach to phasing down intrastate traffic-sensitive ("TS") charges. HT proposes to reduce its current TS rates to bring them to parity with the interstate ATS rate over a two-year period. At the start of the first tariff year of the new plan, hypothetically on July 1, 2012, HT would reduce intrastate TS rates by half of the difference between the current intrastate TS rates and the interstate ATS rate. At the start of the second year, on July 1, 2013, HT would bring intrastate TS rates into parity with the interstate ATS rate.[32]

As explained above, special circumstances have cause underfunding of HT's network in Hawaii, even though its rural islands are very high-cost areas and it is more isolated than any other land mass on Earth. Therefore, HT does not believe further reductions in interstate or intrastate access charges should be ordered at this time. Further reductions could have highly detrimental impacts on consumers and on network investment in the state. Rather, the Commission should pause after the first two steps described above, and reevaluate the effects of these changes on universal service in the

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31 Based on the limited information available, HT does not believe that the proposed ARM would produce meaningful replacement revenues in Hawaii. Moreover, ARM revenues are expected to be phased out after just five years. *Public Notice* at 11.

32 *Cf.* ABC Plan, Attach. 1 at 11 (intrastate rates would be reduced in two increments to parity with interstate rates by the July 1, 2013).

state, including the effects on service quality and reliability, innovation, HT's ability to invest in and operate its network, and the effects on consumers. The Commission in particular should evaluate the effects on line loss and minutes of use of the public switched network, as well as deployment and penetration of the broadband network, before requiring any further reductions in HT's interstate or intrastate access charges.

2. IAS For Hawaii Should Be Phased Out Over Four Years

The Commission has proposed to phase out IAS for all price cap carriers, regardless of broadband penetration levels in their study areas.[33] The ABC Plan also proposes to phase out IAS over four years.[34] HT agrees that the Commission should allow a four-year phase-out period for IAS, in five equal increments from January 1, 2012 through January 1, 2016, but at the same time CAF support should be fully funded in Hawaii beginning in the first year of the plan, as described below. HT plans to upgrade its inter-island middle-mile links to the islands of Molokai and Lanai this year, and expand broadband services that have been lacking on those islands. Additionally, HT is exploring alternatives to enhance broadband availability to the isolated communities of Hana and Kohala that have no terrestrial cable links today, and are served solely via point-to-point microwave links. HT has yet to justify these investments economically, and elimination of the IAS support would make serving these communities even more difficult. HT believes that the funding it would receive under this plan would provide the necessary revenues to allow the company to complete network upgrades that it has begun, to support broadband.

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33 *NPRM* at para.160.

34 ABC Plan, Attach. 1 at 8-9.

3. CAF Should Be Immediately Available In Hawaii

As IAS declines over the course of four years, CAF should be flowing in Hawaii to ensure HT can make continuing investment in local infrastructure. The ABC Plan suggests that the CAF will not be fully funded, at the national level, in the first years of the plan.[35] Given the historic underfunding of HT's service areas, HT requires the full support of the CAF beginning at the start of the plan, effective January 1, 2012, to fund capital expenditures as well as operating expenses.[36]

As discussed in HT's initial comments and its Petition, fiber optic cable has proven to be the best choice for providing connectivity in and between the Hawaiian islands. HT requires high-cost support to replace microwave links with fiber-optic connections. Redundancy must be built into these networks. Strong ocean currents, violent storms, tsunamis, volcanic activity, and sea-quakes are just some of the events that can disrupt network operations and increase costs.

Laying and maintaining undersea fiber requires expensive deep-sea equipment. Because Hawaii is not home to any ships specializing in the placement, repair, and maintenance of deep sea fiber cables, it can take over a week – sometimes months – to obtain the appropriate equipment and restore damaged cables. When Time Warner Cable and Wavecom experienced a break in their inter-island fiber optic cable between Oahu

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35 *Id.* at 1, 9.

36 If the Commission grants HT's proposal to recalculate high-cost support at the wire center level using the current high-cost proxy model, HT's CAF support should not be reduced by the high-cost model support (HCMS) amount thus produced. Rather, the HCMS, as a temporary supplement, should be awarded to HT in addition to the CAF. Similarly, CAF should not be reduced by the amount of IAS, another temporary support mechanism, disbursed to HT in the first five years of the plan.

and Maui in July 2010, a ship was deployed to repair the cable about five weeks after the cut.[37]

If the Commission adopts HT's proposal, CAF will support HT's investment in fiber-based infrastructure in and between wire centers throughout the state. This support will allow HT to bring broadband connectivity, at speeds of up to 4 Mbps downstream and 1 Mbps upstream, to approximately 95 percent of customers throughout the state within ten years, and at least a minimum level of connectivity to all the company's central offices in the state, including the costliest and most remote wire centers such as Hana and Kohala, within five years. These deployment levels would represent a substantial extension of facilities in the state and would substantially advance the goal of statewide broadband availability for Hawaii.

37 *See* HT Comments, Append., at 3. HT based this assessment on the time during which traffic was diverted to the HT network under HT's restoration agreement with Time Warner.

III. CONCLUSION

HT's proposed reforms will accurately target high-cost support to areas that are truly hardest to serve. HT believes that the modest proposals suggested in these Comments would result in dramatic improvements in broadband availability in Hawaii, while placing sensible limits on the overall cost to consumers nationwide. HT urges the Commission to recognize the special circumstances that have made it so challenging to deliver broadband in Hawaii, and adopt this modified approach for bringing the nation's most isolated state into the broadband economy.

Respectfully submitted,

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